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Friday, Feb 04, 2005

## State



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Posted on Thu, Feb. 03, 2005

### New source of tobacco buyout bucks

House suggests using ag fund to cover payments to farmers

By Ryan Alessi

HERALD-LEADER FRANKFORT BUREAU

**FRANKFORT** - A state House committee yesterday voted to tap a special agricultural fund to pay tobacco farmers \$114 million that was supposed to come from cigarette companies last December.

About 163,000 Kentucky tobacco farmers are eligible for the so-called Phase II payments under the landmark 1997 lawsuit settlement that compensates states for smoking-related health costs.

The companies refused to pay their last Phase II installment after Congress approved a \$10 billion buyout program for tobacco farmers last fall, citing a clause in the settlement agreement. A North Carolina judge has ruled in favor of the companies.

A Kentucky law requires the state to pick up the tab anytime the payments fall below \$114 million.

The House bill that would fund those checks would take \$16 million from the Agricultural Development Board right away and another \$11 million after April 15. The board helps farmers

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diversify their operations. It gets its money from a different section of the 1997 settlement, called Phase I.

Because the board doesn't have all \$114 million on hand, the bill would require it to borrow \$86.6 million through 20-year bonds, said Rep. Rick Rand, D-Bedford, one of the bill's chief sponsors.

Gov. Ernie Fletcher and many in the farming community, however, oppose using the Agriculture Development Board money to cover the Phase II payments. Some senators yesterday also expressed reservations about the House's approach.

"There's a lot of concern about robbing the Ag Development funds," said Republican Floor Leader Dan Kelly of Springfield.

Sen. Tom Buford, R-Nicholasville, said that interest on the bonds that the Agriculture Board would have to sell could drive the state's total cost of the final payout above \$200 million.

Republican leaders in the Senate say they haven't decided how to handle the issue yet. So far, they haven't advanced an alternative to the House plan.

Rep. Tom McKee, D-Cynthiana, and chairman of the House agriculture committee, yesterday defended using Ag Development money.

"We're simply moving tobacco money from one pot to another pot. In essence, it will have no effect on the budget."

Several House members also argued yesterday that the state needs to move quickly because many farmers had counted on 2004 Phase II settlement checks to make payments on land or equipment.

Under the payout formula, 19 of the 163,000 farmers would get checks larger than \$50,000. About 87,000 would receive less than \$250 each, said Rep. Mike Denham, D-Maysville.

The Kentucky Farm Bureau last month said it would support using money raised by a cigarette tax increase to cover the 2004 Phase II payments instead of using Ag Development funds.

Fletcher proposed a 31-cent increase in his tax plan that he unveiled Tuesday.

Yesterday, the farm bureau's chief executive David Beck said he hopes the legislature finds "a

better way to it" than the House plan.

Fletcher's press office late Tuesday e-mailed reporters after the governor finished his State of the Commonwealth Address, saying that a paragraph had been omitted from the speech "due to a technical error."

"I would like to encourage you to protect Phase I tobacco money ... as we pay our farmers the Phase II money they are relying on," the governor had intended to tell the lawmakers, according to that e-mail release.

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